

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
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September 3, 2003

Mr. Richard C. Cooke
Cooke Management Company, Inc.
Post Office Box 808
Lake View, South Carolina 29563

Re: AC# 3-KGS-J1 – Kingstree Nursing Facility, Inc.

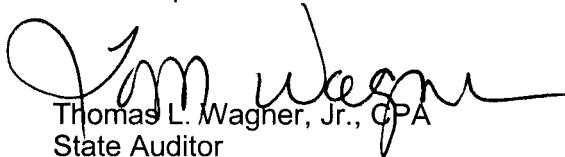
Dear Mr. Cooke:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2000 through September 30, 2001. That report was used to set the rate covering the contract periods beginning January 1, 2003.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

By request of the state medicaid agency this letter also serves as an official notice of your requirement to respond with a report of planned corrective actions on the recommendations and deficiencies noted in this report within forty-five (45) days of the date of this letter. Your response should reference the audit control number and be addressed to: Division of Home Health and Nursing Facility Services, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina, 29202-8206. You are also required to simultaneously furnish a copy of your corrective action report to the State Auditor's Office.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph P. Hayes

KINGSTREE NURSING FACILITY, INC.

KINGSTREE, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING JANUARY 1, 2003
AC# 3-KGS-J1**

AGREED-UPON PROCEDURES REPORT

ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 14, 2003

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Kingstree Nursing Facility, Inc., for the contract periods beginning January 1, 2003, and for the twelve month cost report period ended September 30, 2001, as set forth in the accompanying schedules. The management of Kingstree Nursing Facility, Inc. is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

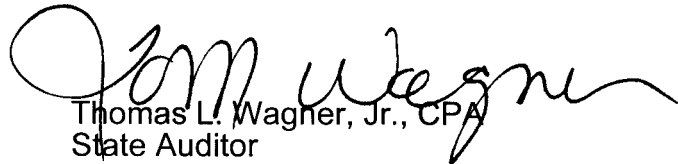
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Kingstree Nursing Facility, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, Cost of Capital Reimbursement Analysis and the Comments and Recommendations sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Kingstree Nursing Facility, Inc. dated as of October 1, 2001 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
July 14, 2003

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA
State Auditor

KINGSTREE NURSING FACILITY, INC.

Computation of Rate Change
For the Contract Periods
Beginning January 1, 2003
AC# 3-KGS-J1

	Beginning <u>01/01/03</u>
Interim Reimbursement Rate (1)	\$105.18
Adjusted Reimbursement Rate	<u>100.08</u>
Decrease in Reimbursement Rate	\$ <u><u>5.10</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated May 8, 2003

KINGSTREE NURSING FACILITY, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Periods Beginning January 1, 2003
AC# 3-KGS-J1

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$44.98	\$63.44	
Dietary		10.65	11.63	
Laundry/Housekeeping/Maintenance		<u>10.20</u>	<u>10.22</u>	
Subtotal	<u>\$5.97</u>	65.83	85.29	\$ 65.83
Administration & Medical Records	<u>\$1.14</u>	<u>11.49</u>	<u>12.63</u>	<u>11.49</u>
Subtotal		77.32	<u>\$97.92</u>	77.32
<u>Costs Not Subject to Standards:</u>				
Utilities		2.47		2.47
Special Services		-		-
Medical Supplies & Oxygen		4.48		4.48
Taxes and Insurance		1.59		1.59
Legal Fees		<u>.01</u>		<u>.01</u>
TOTAL		<u>\$85.87</u>		85.87
Inflation Factor (3.70%)				3.18
Cost of Capital				9.28
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				1.14
Cost Incentive				5.97
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(5.36)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$100.08</u>

KINGSTREE NURSING FACILITY, INC.
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 2001
 AC# 3-KGS-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$1,519,208	\$ -	\$ 4,165 (5) 62,437 (6) 3,427 (6) 10,864 (7)	\$1,438,315
Dietary	359,592	-	10,935 (3) 8,108 (6)	340,549
Laundry	51,313	-	1,838 (6) 2 (7)	49,473
Housekeeping	185,235	-	6,963 (6)	178,272
Maintenance	100,915	-	2,475 (6) 85 (7)	98,355
Administration & Medical Records	393,048	-	10,173 (6) 541 (6) 14,961 (7)	367,373
Utilities	94,096	-	10,284 (4) 11 (7) 4,894 (8)	78,907
Special Services	-	-	-	-
Medical Supplies & Oxygen	143,231	-	-	143,231
Taxes and Insurance	50,734	-	17 (7)	50,717
Legal Fees	230	-	-	230
Cost of Capital	302,546	1,883 (9)	6,992 (1) 682 (2) 40 (7)	296,715
Subtotal	3,200,148	1,883	159,894	3,042,137
Ancillary	150	-	-	150

KINGSTREE NURSING FACILITY, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2001
AC# 3-KGS-J1

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Non-Allowable	596,863	6,992 (1)	1,883 (9)	754,874
		682 (2)		
		10,935 (3)		
		10,284 (4)		
		4,165 (5)		
		95,962 (6)		
		25,980 (7)		
		<u>4,894 (8)</u>		
	<u> </u>		<u> </u>	<u> </u>
Total Operating Expenses	<u>\$3,797,161</u>	<u>\$161,777</u>	<u>\$161,777</u>	<u>\$3,797,161</u>
Total Patient Days	<u>31,977</u>	<u>-</u>	<u>-</u>	<u>31,977</u>
Total Beds	<u>88</u>			

KINGSTREE NURSING FACILITY, INC.
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-KGS-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 63,709	
	Accumulated Depreciation	21,433	
	Nonallowable	6,992	
	Other Equity		\$ 85,142
	Cost of Capital		6,992
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	682	
	Cost of Capital		682
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Nonallowable	10,935	
	Dietary		10,935
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk State Plan, Attachment 4.19D		
4	Nonallowable	10,284	
	Utilities		10,284
	To adjust utility expense HIM-15-1, Sections 2106 and 2304		
5	Nonallowable	4,165	
	Nursing		4,165
	To remove duplicate posting of expense HIM-15-1, Section 2304		

KINGSTREE NURSING FACILITY, INC.
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-KGS-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable	95,962	
	Nursing		62,437
	Restorative		3,427
	Dietary		8,108
	Laundry		1,838
	Housekeeping		6,963
	Maintenance		2,475
	Administration		10,173
	Medical Records		541
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Nonallowable	25,980	
	Nursing		10,864
	Laundry		2
	Maintenance		85
	Administration		14,961
	Utilities		11
	Taxes and Insurance		17
	Cost of Capital		40
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
8	Nonallowable	4,894	
	Utilities		4,894
	To remove cost not related to patient care HIM-15-1, Sections 2102.3 and 2328		

KINGSTREE NURSING FACILITY, INC.
Adjustment Report
Cost Report Period Ended September 30, 2001
AC# 3-KGS-J1

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
9	Cost of Capital Nonallowable	1,883	1,883
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$246,919</u>	<u>\$246,919</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

KINGSTREE NURSING FACILITY, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2001
AC# 3-KGS-J1

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.4607</u>
Deemed Asset Value (Per Bed)	38,431
Number of Beds	<u>88</u>
Deemed Asset Value	3,381,928
Improvements Since 1981	-
Accumulated Depreciation at 9/30/01	<u>(144,796)</u>
Deemed Depreciated Value	3,237,132
Market Rate of Return	<u>.0577</u>
Total Annual Return	186,783
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	186,783
Depreciation Expense	109,932
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	296,715
Total Patient Days (Actual)	<u>31,977</u>
Cost of Capital Per Diem	\$ <u><u>9.28</u></u>

COMMENTS AND RECOMMENDATIONS

Our agreed-upon procedures identified certain conditions that we have determined to be subject to correction or improvement. We believe these conditions should be brought to your attention.

TRANSACTION CLASSIFICATION

The Provider classified a significant number of transactions to improper accounts and cost centers.

Guidance for the proper classification of transactions is provided in the South Carolina Department of Health and Human Services Medicaid Nursing Home Accounting and Reporting Manual (Expense Crosswalk), the State Plan under Title XIX of the Social Security Act, Medicaid Bulletins and South Carolina Department of Health and Human Services directives.

By failing to classify transactions in accordance with the administering agency's guidelines, the Provider misstated several accounts and cost centers.

We recommend the Provider establish and implement necessary controls to ensure that all transactions are properly classified in accordance with South Carolina Department of Health and Human Services guidelines.

VENDING MACHINE SALES

Income received from vending machine sales was not deposited in the facility operating account. Funds generated from these sales were retained by the owners and used to make minor purchases for the facility, similar to a petty cash fund.

A system of good internal accounting control requires that all cash received be deposited intact.

By failing to deposit these receipts, the Provider is unable to readily document income derived from vending machine sales and has understated income and overstated reimbursable expenses.

We recommend the Provider establish and implement the necessary controls to ensure that all cash received is deposited timely and intact.

2 copies of this document were published at an estimated printing cost of \$1.43 each, and a total printing cost of \$2.86. The FY 2002-03 Appropriation Act requires that this information on printing costs be added to the document.